

**Insurance Association of Connecticut
Labor and Public Employees Committee**

February 26, 2013

**HB 6148, An Act Providing Protection To Retirees From
Discrimination In Pension Derisking Transactions**

The Insurance Association of Connecticut, IAC, is strongly opposed to HB 6148, An Act Providing Protections To Retirees From Discrimination In Pension Derisking Transactions.

Employers use alternative mechanisms to provide retirement benefits for different reasons including when they are terminating a defined benefit plans, (plan) or part thereof. One way employers accomplish this is by purchasing guaranteed and irrevocable commitments, annuities, from an insurer which the insurer assumes all or part of the benefit payment obligation of the plan, or "annuitization." Rather than referring to these transactions as "derisking transactions", it is more appropriate to refer to them as "annuitization. These annuities provide benefits identical to the benefits earned under the pension. This is a well established practice that has delivered retirement security for decades. In the case of private-sector employers, these transactions are governed by federal pension law (ERISA) and its highly protective fiduciary standards of prudence and loyalty. Any retirees in pay status continue to receive payments equal to the amount they were receiving under the plan.

HB 6148 seeks to unnecessarily alter existing requirements for plan participants for whom annuities are purchased. HB 6148 would mandate disclosures to participants, state approval of transactions, provisions that permit opt-out rights to plan participants, fiduciary standards and changes to the state guaranty fund coverage for annuitants contrary to existing law. Federal law already prescribes the fiduciary standards that must be followed when using an annuity. For example, under federal law plan fiduciaries must choose the "safest available" annuity provider and meet certain federal standards when choosing an insurer to provide an annuity. Plan fiduciaries are personally liable for failures to comply with the law. The extra level of state protections would do little to increase protection and could actually be harmful by placing additional barriers to Connecticut businesses struggling to meet financial burdens while still maintaining a defined benefit pension plan.

HB 6148 also seeks to improperly alter the coverage offered by the Connecticut Life and Health Insurance Guaranty Association (CLHIGA) by expanding to levels beyond its intended purpose. By amending coverage under CLHIGA to be the equivalent to that offered under the Pension Benefit Guaranty Corporation for certain annuitants would result in providing significantly different coverage for one class of annuitants than any other class protected by the association. It would also create a distinct coverage in Connecticut that is not provided anywhere else in the country. Altering the state guarantee coverage ignores and fails to value the significant protections in place prior to the state guaranty protection. Insurers issuing annuity contracts are required to maintain additional capital to back the annuity obligation, and follow prudent investment strategies. Insurers are also subject to significant insurance regulatory oversight. Trying to replicate the PBGC creates another costly and unnecessary step.

Also requiring changes to Connecticut insurance law by requiring individual opt-out rights will create anti-selection risk and costs that will make such solutions prohibitively complex and expensive as doing so comes at a price, anti-selection risk.

The IAC urges your rejection of HB 6148.